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**NEW MEDICARE DRUG PLANS FAIL TO PROVIDE
MEANINGFUL DRUG PRICE DISCOUNTS
IN NORTH CAROLINA'S 1ST CONGRESSIONAL
DISTRICT**

PREPARED FOR REP. G.K. BUTTERFIELD

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EXECUTIVE SUMMARY

Republican leaders and Bush Administration officials have repeatedly promised that the new prescription drug benefit being offered through Medicare Part D would benefit seniors and protect federal taxpayers by keeping drug costs down. According to former Health and Human Services Secretary Tommy Thompson, the health insurance companies sponsoring the Medicare drug plans “are going to be able to purchase in bulk with the pharmaceutical companies and hold down prices.” When Democrats argued that Medicare should be authorized to negotiate directly with drug companies for low prices, Senate Majority Leader Bill Frist rejected the proposal, claiming that “competition through the private sector, through bulk purchasing and negotiation, is a more effective means to hold down prices.”

At the request of Rep. G.K. Butterfield, this report examines whether the Republican promises of low drug prices have been achieved by the private insurance companies providing Medicare drug plans in the 1st Congressional District of North Carolina, which Mr. Butterfield represents. The analysis in the report is based on a comparison of the drug prices offered to seniors in the district by ten leading Medicare drug plans with four benchmarks: (1) the drug prices negotiated by the federal government and available on the Federal Supply Schedule; (2) the drug prices paid by consumers in Canada; (3) the drug prices currently available on-line through Drugstore.com; and (4) the drug prices currently available at Costco stores near the district. The drugs whose prices are evaluated in the report were the ten best-selling drugs among seniors in 2004.

The report finds that the complicated Medicare drug benefit now being offered to seniors has not succeeded in reducing drug prices in Rep. Butterfield's district. The average drug prices offered in the district by the ten leading Medicare drug plans are higher than each of the four benchmark prices. Specifically, the report finds that the drug prices offered by the Medicare drug plans are:

- **Over 85% higher than the prices negotiated by the federal government.**
- **Over 60% higher than the prices available to consumers in Canada.**
- **Almost 5% higher than the prices available on Drugstore.com.**
- **Almost 4% higher than the prices available at Costco.**

These findings have significant implications for seniors in the district, federal taxpayers, and the design of the Medicare drug benefit. For seniors, high drug prices increase out-of-pocket costs and reduce purchasing power, especially for

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those whose drug spending falls within the “donut hole,” where seniors are responsible for paying 100% of their drug bills. For taxpayers, high drug prices increase the costs of funding the Medicare drug benefit. And for the program itself, high drug prices call into question whether the vast complications injected into Medicare Part D by allowing private insurers to offer competing drug plans are providing any tangible benefits to anyone but drug manufacturers and the insurers themselves.

BACKGROUND

Seniors and people with disabilities are now presented with complicated and confusing choices for Medicare drug benefits. In Rep. Butterfield's district alone, Medicare beneficiaries must choose between almost 50 different Medicare drug plans. These plans offer a bewildering array of differences in premiums, deductibles, benefits, gaps in coverage, and drug formularies.

The new drug benefit being offered through Medicare Part D is considerably more complicated for beneficiaries than other parts of Medicare or Social Security. The primary reason for the added complexity is that Medicare Part D was designed to allow for the participation of large numbers of private insurers. When the drug benefit was being constructed, Republican leaders in Congress, President Bush, and other senior Administration officials argued that competition among many private insurers would be the most effective way to keep prices low for seniors and the taxpayer. In October 2003, as Congress was debating the Medicare legislation, the President claimed:

The best way to provide our seniors with modern medicine, including prescription drug coverage ... is to give them better choices under Medicare. If seniors have choices, health plans will compete for their business by offering better coverage at more affordable prices.¹

Similarly, Secretary of Health and Human Services Tommy Thompson promised:

Health insurance companies are going to get into this market. ...
The pharmaceutical benefit managers who will be taking over

¹ The White House, *President Calls on Congress to Complete Work on Medicare Bill* (Oct. 29, 2003).

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purchasing the drugs are going to be able to purchase in bulk with the pharmaceutical companies and hold down prices.²

During the congressional debate, Democrats argued that the federal government could provide a simpler benefit and do so at lower cost by negotiating directly with the drug companies. But these proposals, opposed by the Republican leadership in Congress and the Bush Administration, were defeated. In fact, the final legislation contains a provision that expressly bans the federal government from negotiating with drug manufacturers for lower drug prices.³ According to the Republicans on the House Ways and Means Committee, the Medicare legislation as passed “will allow competitive forces in the private market to generate the best savings for seniors.”⁴ Senate Majority Leader Bill Frist asserted that “competition through the private sector, through bulk purchasing and negotiation, is a more effective means to hold down prices.”⁵

As the Bush Administration implemented the new Medicare program, these promises of low drug prices through competition were regularly reiterated. In September 2004, Medicare Administrator Mark McClellan claimed that private drug plans would be able to obtain prices for seniors at least as low as those paid by the federal government. He stated:

Our approach is expected to provide the best discounts on drugs, discounts as good or better than could be achieved through direct government negotiation.⁶

Just three months ago, Dr. McClellan asserted that “competition among the drug plans is working to drive down prices ... for the prescription drugs that seniors and people with disability need.”⁷ The very same day, the White House issued a

² Tommy Thompson, *The Big Story With John Gibson*, Fox News Network (Nov. 26, 2003).

³ Public Law 108-173, § 1860D-2(l).

⁴ Committee on Ways and Means, *Negotiating Lower Prices for America's Seniors* (Dec. 11, 2003).

⁵ *Does Medicare or Private Insurance Do a Better Job of Controlling Health Care Costs?*, The New York Times (November 27, 2003).

⁶ Dr. Mark McClellan, before the Senate Finance Committee, Hearings on the Medicare Prescription Drug Benefit (Sept. 14, 2004).

⁷ The White House, *Press Briefing by Conference Call with Dr. Mark McClellan* (Aug. 29, 2005).

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press release claiming that “competition is working to drive down prices,”⁸ and President Bush stated:

Competition works, by the way. If you've got one provider, the federal government, it doesn't give consumers a lot of choice. But when you provide consumers choice, it's amazing what can happen. People start bidding for your service, so to speak. They want to attract your business. And it's going to work in Medicare, too.⁹

PURPOSE AND METHODOLOGY

At the request of Rep. G.K. Butterfield, this report analyzes whether the private insurers offering Medicare drug benefits have been successful in delivering low prices to Medicare beneficiaries in North Carolina's 1st Congressional District. Rep. Butterfield represents this district, which is located in northeast North Carolina and includes the cities of Goldsboro, Rocky Mount, Wilson, and Greenville.

Under Medicare Part D, each private insurer selling a drug benefit plan negotiates with drug manufacturers and pharmacies for the prices that will be offered to beneficiaries. These prices are posted on the Medicare website.¹⁰ Under a standard Medicare drug plan, beneficiaries pay the full cost for the first \$250 worth of drugs used and then receive a 75% subsidy until their drug spending reaches \$2,250. At this point, beneficiaries enter the “donut hole”: subsidies are eliminated, and beneficiaries pay the full cost until their drug spending reaches \$5,100. Beneficiaries then receive a 95% subsidy on all additional drug purchases in a given year.¹¹ Under the Medicare law, beneficiaries are supposed to have

⁸ The White House, *New Medicare Prescription Drug Benefit to Offer Low-Cost Options* (Aug. 29, 2005).

⁹ The White House, *President Participates in Conversation on Medicare*, El Mirage, Arizona (Aug. 29, 2005).

¹⁰ CMS, *Find A Medicare Prescription Drug Plan* (Nov. 2005) (online at <https://www.medicare.gov/MPDPF/Public/Include/DataSection/Questions/Questions.asp>).

¹¹ This standard plan is defined in the Medicare law. Plans must either provide this level of benefit or benefits that are “actuarially equivalent.” Public Law 108-173, § 1860D-2(b). Some plans have used the flexibility allowed by the law to lower the deductible amount or provide some coverage within the “donut hole.”

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“access” to the “negotiated prices” of the private insurer when they are meeting their \$250 deductible or in the “donut hole.”¹²

There are dozens of different Medicare drug plans listed on the Medicare website, with seniors in Rep. Butterfield’s district having a choice of 48 plans. To simplify the analysis, this report examines the drug prices negotiated by ten leading Medicare drug plans. These ten plans are offered by well-established health care insurers and pharmaceutical benefit managers, including Medco, Aetna, Humana, and AARP.¹³

For this analysis, drug prices for each of the ten plans were obtained from five locations in the district.¹⁴

The ten drugs with the highest sales to beneficiaries in 2004 were selected for price analysis. All ten are brand-name drugs with no generic equivalents.¹⁵ For each of the ten plans in each of the five locations, the price offered to a beneficiary in the “donut hole” for a one-month supply of each of ten drugs was obtained from the Medicare website on December 5, 2005. These prices were

¹² Public Law 108-173, § 1860D-2(d)(l). The law provides:

Under qualified prescription drug coverage offered by a PDP sponsor offering a prescription drug plan or an MA organization offering an MA-PD plan, the sponsor or organization shall provide enrollees with access to negotiated prices used for payment for covered part D drugs, regardless of the fact that no benefits may be payable under the coverage with respect to such drugs because of the application of a deductible or other cost-sharing or an initial coverage limit. ... For purposes of this part, negotiated prices shall take into account negotiated price concessions, such as discounts, direct or indirect subsidies, rebates, and direct or indirect remunerations, for covered part D drugs, and include any dispensing fees for such drugs.

In the rulemaking implementing this provision, the Center for Medicare and Medicaid Services (CMS) determined that market forces could be relied upon to ensure that price concessions negotiated by the insurers would be largely passed through to beneficiaries. Department of Health and Human Services, Medicare Program: Medicare Prescription Drug Benefit, 70 Fed. Reg. 4194 (January 28, 2005).

¹³ The ten plans are the AARP Medicare Rx Plan, the Advantra Rx Premier Plan, the Aetna Medicare Rx Premier Plan, the Cignature Rx Plus Plan, the Community CareRx Basic Plan, the Humana PDP Standard Plan, the UA Medicare Part D Prescription Drug Plan, the United Medicare MedAdvance Plan, the WellCare Signature Plan, and the YourRx Plan.

¹⁴ The five zipcodes in the district were 27531, 27551, 27556, 27820, and 27890.

¹⁵ These drugs are Advair Diskus, Aricept, Celebrex, Fosamax, Lipitor, Nexium, Plavix, Prevacid, Protonix, and Zocor. (Pennsylvania Department of Aging, PACE Program, 2004 *High Cost and High Volume Claims* (2005).

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then averaged to determine the average prices offered by the Medicare drug plans.¹⁶

The prices offered by the ten Medicare drug plans were then compared to four sets of benchmark prices:

- (1) The prices negotiated by the federal government for the ten drugs. These prices are negotiated for the government by the Department of Veterans Affairs, listed on the Federal Supply Schedule, and used by federal agencies when they purchase drugs.
- (2) The prices consumers in Canada pay for the ten drugs. Prices in Canada are capped by the country's Patented Medicines Prices Review Board, which requires that the price for a brand-name drug not exceed the average price of the drug in seven other industrialized countries.¹⁷
- (3) The prices currently available over the internet for the ten drugs on Drugstore.com, a popular internet supplier of prescription drugs.
- (4) The prices currently available for the ten drugs at Costco stores near Rep. Butterfield's district.¹⁸ Costco is a large national retailer of consumer products, including prescription drugs.

FINDINGS

The price comparisons in this report reveal that the new Medicare drug plans have failed to deliver meaningful drug discounts in Rep. Butterfield's district. The prices offered in the district by the ten leading Medicare drug plans are higher than each of the four benchmark prices examined in the report, in some cases far higher. These findings have significant implications for seniors, federal taxpayers, and the design of the drug benefit.

¹⁶ The additional cost of the premium charged to beneficiaries was not included in this analysis.

¹⁷ Patented Medicines Prices Review Board, *PMPRB Annual Report 2004* (2005).

¹⁸ Prices for the ten drugs were obtained from the Costco store located in Durham.

Comparison of Medicare Drug Plan Prices in the 1st Congressional District to Federally Negotiated Prices

The prices offered by the ten Medicare drug plans in Rep. Butterfield's district are substantially higher than the prices negotiated by the federal government. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is \$1,170. In comparison, the price negotiated by the federal government for the same drugs is just \$630. In percentage terms, the prices offered by the Medicare drug plans are 86% higher than the federally negotiated prices. Figure 1.

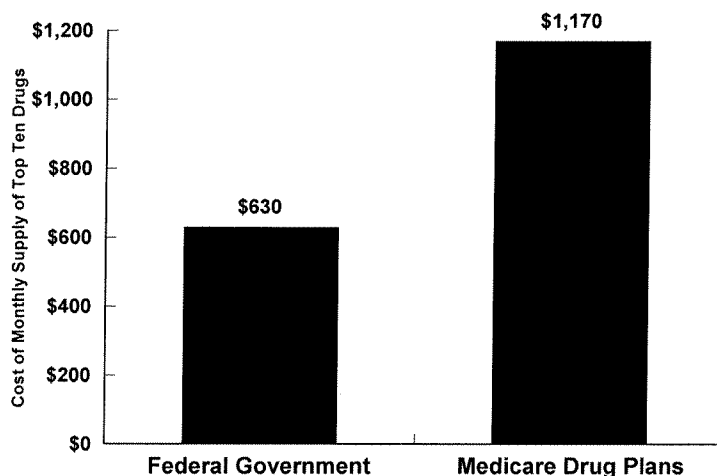
For specific drugs, the price differences can exceed or approach 100%. The Medicare drug plans offer an average price of \$107 for a one-month supply of Protonix, the ulcer medication manufactured by Wyeth. This is 405% higher than the \$21 price negotiated by the federal government. The Medicare drug plans offer an average price of \$133 for a one-month supply of Zocor, the cholesterol medication manufactured by Merck. This is 92% higher than the \$69 price negotiated by the federal government.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plans in Rep. Butterfield's district and the federally negotiated drug prices.¹⁹

¹⁹ One difference between the prices offered by the Medicare drug plans and the federally negotiated prices is that the prices offered by the Medicare drug plans incorporate pharmacy dispensing fees. Typical pharmacy dispensing fees are around \$5.00 per prescription. Subtracting these small fees from the prices offered by the Medicare drug plans would not significantly affect the price comparisons.

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Figure 1: Medicare Drug Plan Prices in Rep. Butterfield's District Are Far Higher Than Federally Negotiated Prices



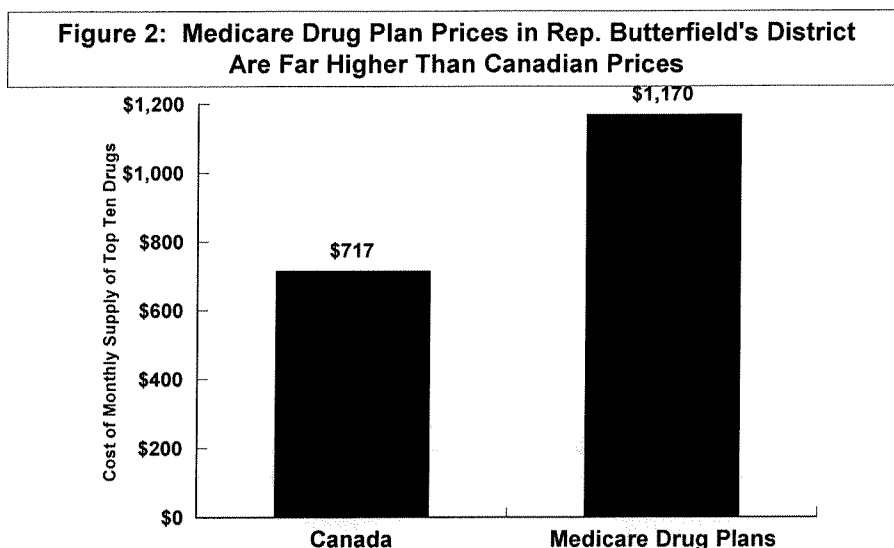
Comparison of Medicare Drug Plan Prices in the 1st Congressional District to Canadian Prices

The prices offered by the ten Medicare drug plans in Rep. Butterfield's district are substantially higher than the prices paid by consumers in Canada. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is \$1,170. The Canadian price for the same drugs is \$717. In percentage terms, the prices offered by the Medicare drug plans are 63% higher than the Canadian prices. Figure 2.

For specific drugs, the price differences can exceed or approach 100%. The Medicare drug plans negotiated an average price of \$142 for a one-month supply of Prevacid, the ulcer medication manufactured by Tap Pharmaceuticals. This is 124% higher than the \$63 Canadian price. The Medicare drug plans negotiated an average price of \$85 for a one-month supply of Celebrex, the arthritis medication manufactured by Pharmacia. This is 90% higher than the \$45 Canadian price.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plans in Rep. Butterfield's district and the Canadian drug prices.

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Comparison of Medicare Drug Plan Prices in the 1st Congressional District to Drugstore.com Prices

The prices offered by the ten Medicare drug plans in Rep. Butterfield's district are higher than the prices currently available to consumers in the district through the popular on-line pharmacy at Drugstore.com. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is \$1,170. At Drugstore.com, these ten drugs can be purchased for just \$1,119. The average prices negotiated by the Medicare drug plans are 4.6% higher than the Drugstore.com prices.

For specific drugs and specific plans, the price differences can be far higher. One Medicare drug plan in the district charges \$224 for a one-month supply of Advair, the asthma medication manufactured by Glaxo. This is 51% higher than the \$148 Drugstore.com price. Another plan charges \$165 for a one-month supply of Prevacid, the ulcer medication manufactured by Tap Pharmaceuticals. This is 32% higher than the \$125 Drugstore.com price.

The ten Medicare drug plans do offer a mail-order option with lower prices for seniors who need — and can afford — to buy a three-month supply of drugs. However, even the mail-order prices offered by the Medicare drug plans do not represent appreciable discounts. The average cost of a three-month supply of the

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ten drugs through the Medicare drug plans is \$3,180.²⁰ The cost of the same drugs from Drugstore.com is \$3,222, only slightly higher.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plans in Rep. Butterfield's district and the Drugstore.com drug prices.

Comparison of Medicare Drug Plan Prices in the 1st Congressional District to Costco Prices

The prices offered by the ten Medicare drug plans in Rep. Butterfield's district are higher than the prices currently available to consumers at Costco stores. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is \$1,163. At Costco, these ten drugs can be purchased for just \$1,126. The average prices negotiated by the Medicare drug plans are 3.9% higher than the Costco prices.

For specific drugs and specific plans, the price differences can be far higher. One Medicare drug plan in the district charges \$165 for a one-month supply of Prevacid. This is 29% higher than the \$128 Costco price. Another plan charges \$130 for a one-month supply of Protonix, the ulcer medication manufactured by WyethAyerst. This is 26% higher than the \$103 Costco price.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plans in Rep. Butterfield's district and the Costco prices.

Implications of the High Drug Prices

For seniors in Rep. Butterfield's district, the high drug prices offered by the Medicare drug plans increase out-of-pocket costs, reduce purchasing power, and undercut the value of the assistance provided by the Medicare drug benefit. Under the standard Medicare Part D plan, seniors must pay the first \$250 of their drug costs, 25% of their drug costs from \$250 to \$2,250, all of their drug costs in the "donut hole" from \$2,250 to \$5,100, and 5% of their drug costs above \$5,100. For any individual senior, the impact of high prices will depend on the level of the senior's drug spending. The impact will be greatest for seniors whose last dollar of spending falls inside the "donut hole," where high drug prices can rapidly consume seniors' limited financial resources. But even seniors whose last dollar of spending falls between \$250 to \$2,250 (where there is a 25% copay) or above

²⁰

The Community CareRx plan does not offer a mail-order option and is not included in the average price.

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\$5,100 (where there is a 5% copay) will experience increases in their out-of-pocket expenses.²¹

For taxpayers, the high drug prices have significant fiscal implications because they increase the costs of Medicare Part D. High drug prices expand both the number of seniors who exhaust their deductible and the number of seniors who spend through the “donut hole.” Each of these factors raises the overall cost of Medicare Part D coverage. The increase in the number of seniors who spend through the “donut hole” is especially expensive, because the additional drug expenditures of seniors with drug bills above \$5,100 are subsidized at a 95% rate.

For policymakers, the failure of the Medicare drug plans to offer meaningful drug discounts raises important questions about the design of the program. When the Medicare drug benefit was enacted, Republican leaders in Congress and Bush Administration officials argued that a complicated structure based on competition among private insurers would save seniors and taxpayers money by keeping drug prices low. The inability of the Medicare drug plans to meet this goal calls into doubt the value of the complicated design of Medicare Part D. A much simpler system that authorizes the federal government to negotiate drug prices — as Democratic members of Congress proposed — would appear likely to lower spending by both seniors and taxpayers.

CONCLUSION

This report compares the drug prices offered by ten leading Medicare plans in Rep. Butterfield's congressional district with four benchmark prices: the prices negotiated by the federal government, the prices available in Canada, the prices offered on-line at Drugstore.com, and the prices available at retail drug discounter Costco. Although Republican leaders in Congress and Bush Administration officials promised that the design of the Medicare drug benefit would ensure that the Medicare drug plans offered the lowest possible prices, this in fact has not occurred. The prices offered in Rep. Butterfield's district by the Medicare drug plans are higher than all four benchmarks, in some cases significantly so. This increases costs to seniors and federal taxpayers, making it doubtful that the

²¹ In addition to increasing the out-of-pocket costs for seniors, high drug prices may ultimately have the effect of increasing the premiums seniors pay for the Medicare drug benefit. This impact was not examined in this analysis.

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complicated design of Medicare Part D provides significant benefits to anyone but drug manufacturers and insurers.

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Appendix 1: Table of Comparisons

Drug	Manufacturer	Quantity and Dosage	Price				
			Avg. of Ten Medicare Drug Plans*	Federally Negotiated Price	Canada	Drugstore.com	Costco
Advair Diskus	Glaxo	250/50, 60 doses	\$168.98	\$92.35	\$89.29	\$147.99	\$153.97
Aricept	Eisai	10 mg, 30 cap	\$139.56	\$88.07	\$139.92	\$134.99	\$144.39
Celebrex	Pharmacia	200 mg, 30 cap	\$83.99	\$50.20	\$44.63	\$83.99	\$82.67
Fosamax	Merck	70 mg, 4 cap	\$69.99	\$41.11	\$42.83	\$69.99	\$68.07
Lipitor	Pfizer	10 mg, 30 cap	\$68.99	\$41.57	\$55.51	\$68.99	\$68.87
Nexium	Astra Zeneca	40 mg, 30 cap	\$131.34	\$81.64	\$67.37	\$123.99	\$127.07
Plavix	Bristol-Myers Squibb	75 mg, 30 cap	\$120.90	\$74.06	\$76.63	\$116.99	\$118.89
Prevacid	Tap Pharm.	30 mg, 30 cap	\$142.25	\$70.85	\$63.42	\$124.99	\$127.97
Protonix	Wyeth Ayerst	40 mg, 30 cap	\$106.56	\$21.11	\$64.42	\$111.12	\$102.67
Zocor	Merck	20 mg, 30 cap	\$133.31	\$69.27	\$73.10	\$135.99	\$131.29
Total			\$1170.06	\$630.23	\$717.12	\$1,119.03	\$1,125.86

*As calculated from prices provided by the Medicare website for five locations in North Carolina's 1st Congressional District on December 14, 2005.